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DE RUEHKU #4532/01 3321354
ZNY CCCCC ZZH
P 281354Z NOV 06
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC PRIORITY 7720
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 004532

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FOR NEA/ARP, EB/ESC/IEC

E.O. 12958: DECL: 11/28/2011

TAGS: ENRG ECON KU

SUBJECT: KUWAIT SCRAMBLES TO AVOID WIDESPREAD POWER OUTAGES
IN SUMMER 2007

REF: A. KUWAIT 3936

- 1B. KUWAIT 3720
1C. KUWAIT 3469

Classified By: Charge d'Affaires Matt Tueller for reasons 1.4 (b) and (d).

11. (C/NF) Summary and comment: In an effort to avoid a repetition of the rolling blackouts that Kuwait experienced in July-August 2006 due to a growing gap between generating capacity and peak demand (refs A and B), the Kuwait Ministry of Energy is fast-tracking a tender to provide an additional 1300 MW of power before June 2007. Last summer's blackouts have been politically damaging to the Government, spawning multiple investigations and resulting in calls for the Energy Minister to resign. In the words of the Ministry's Chief Engineer for Power Projects, "This is no longer a technical problem; it's a political problem." After about two months of decision-making paralysis during which several senior officials were suspended as the investigations ran their course, the Energy Ministry now expects to award contracts to multiple companies by December 15 to bring additional generating capacity online by May 31, 2007. The Ministry intends to repeat this exercise later in 2007 to install an additional 1300 MW of capacity before June 2008. Meanwhile, efforts are underway to expedite the re-tendering of a new power plant at Al-Zour North (Ref C) and the expansion of an existing plant at Sabiyya in order to address the long-term need for increased electrical generating capacity beyond 12008. End Summary and comment.

Fast Track for Short-term Solutions before June 2007

12. (C/NF) On 28 November, Econoff and Commercial Attaché met separately with Acting Under Secretary of Energy for Electricity and Water Yousef Al-Hajeri, Chief Engineer for Power Station Projects Ahmad Al-Jassar, and Brian Fullarton, the lead consultant to the Ministry on power projects from U.S.-based Parsons Brinckerhoff International. In an unusually rapid and below-the-radar process, the Energy Ministry quietly began contacting pre-qualified companies on or about 14 November to solicit bids. The unpublished tender calls for the delivery of generator sets to provide an additional 1300 MW before 31 May 2007. The Energy Ministry, in coordination with an inter-ministerial committee tasked with addressing energy needs for 2007-8, obtained exceptionally rapid and streamlined support from the Central Tenders Committee and Audit Bureau and is now in the process of reviewing bids from seven different bidders, including American companies Pratt & Whitney, General Electric, and BTEC. Al-Hajeri expects contracts to be awarded to multiple bidders (most likely three - one for each of the plants in which the generators are to be installed) by December 15. He

noted that power generation solutions only address half of the equation and emphasized that, ultimately, the Government needs to take more aggressive action to control the growth in demand, currently estimated to be 7-8% per annum. Al-Hajeri said that subsidized electricity, a lack of action against the large proportion of consumers who don't pay their energy bills, and the absence of a culture of conservation all contribute to excessive power consumption. He did not, however, outline any specific plans to reduce demand.

Electrical Problem has become a Political Problem

¶3. (C/NF) The unprecedeted rolling blackouts of July and August 2006 led to widespread criticism of the newly-appointed Energy Minister and the Government in general. As a response, the Energy Ministry and the Council of Ministers initiated at least three different investigations which, in turn, led to the suspension of several senior officials in the Energy Ministry and the firing of an Assistant Under Secretary. Chief Engineer Al-Jassar, who is reviewing the bids, remarked that preventing blackouts next summer is "no longer a technical problem; it's a political problem." Al-Jassar implored the Commercial Attache to communicate to all the American bidders that the new units must be brought online before the beginning of June in order to avoid a political crisis. He indicated that price was less of a consideration than the timeliness and reliability of the bidders. Both the Under Secretary and Chief Engineer confirmed that the Council of

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Ministers just approved funding in the amount of 800 million Kuwaiti Dinars (approximately 2.8 billion USD) to prevent a 2007-8 power shortage.

Still need to address Long-term Investment

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¶4. (C/NF) Separately, Econoff met with Brian Fullarton of Parsons Brinckerhoff, the lead consultant to the Ministry on power issues, to follow-up on the re-tendering of the \$2.9 billion, 2500 MW Al-Zour North power plant. Fullarton said the tender was being recrafted into two 1500 MW stages in order to attract more bids by reducing the liability of bidders. (Note: The project was last tendered in August, but, by law, this tender had to be cancelled because only one bid was received. Potential bidders complained to Econoff and Commerical Attache of onerous terms and conditions. End note.) The new tender will also stipulate that the turbines should be combined cycle in accordance with Kuwait Oil Company's plans to exploit a 35 trillion cu. ft. (est.) gas field discovery announced in March 2006. The Al-Zour North plant is expected to come online approximately two years after the contract is awarded.

¶5. (C/NF) When Econoff asked about progress on a 1500 MW expansion of the Sabiyya power station awarded to GE, the Under Secretary said that GE notified the Ministry that it would be unable to fulfill the terms of the contract due to problems with its partner, Hyundai Heavy Industries. The Under Secretary said the Ministry had referred the contract to the Central Tenders Committee to ask that it be awarded to the second-lowest bidder, Siemens. This was confirmed by Brian Fullarton of Parsons Brinckerhoff, who added that GE had submitted an alternative proposal which was rejected by the Ministry. Chief Engineer Al-Jassar acknowledged that expediting the investments in Al-Zour North and Sabiyya was critical to solving Kuwait's long-term energy problems but said that currently most of his efforts are focused on the short-term solution for 2007-8.

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